Quebec Cobalt and Exploration Limited

(No Personal Liability)

Seventeenth Annual Report

For the Year Ended December 31, 1968

QUEBEC COBALT AND EXPLORATION LIMITED

(No Personal Liability)

Head Office:
1155 Dorchester Blvd. W.,
Montreal, Quebec.

Executive Office:
67 Yonge Street,
Toronto, Ontario.

CAPITAL	Authorized: 3,500,000 shares $1.00 Par Value
OFFICERS	ROBERT D. HOFFMAN - - - - *President*
	FRED W. THOMPSON - - - - *Vice-President*
	D. J. HOFFMAN - - - - - *Vice-President*
	B. A. ORR - - - - - - *Vice-President*
	B. A. ORR - - - - - *Secretary-Treasurer*
DIRECTORS	ROBERT D. HOFFMAN - - - - New York
	FRED W. THOMPSON - - - - - Toronto
	B. A. ORR - - - - - - - Toronto
	L. B. NORRIE - - - - - - New York
	D. J. HOFFMAN - - - - - - New York
TRANSFER AGENTS AND REGISTRARS	GUARDIAN TRUST COMPANY 618 St. James Street, Montreal, Quebec
	CANADA PERMANENT TRUST COMPANY 1901 Yonge Street, Toronto 7, Ontario

QUEBEC COBALT AND EXPLORATION LIMITED

(No Personal Liability)

Directors' Report to Shareholders

Montreal, Quebec,
March 25th, 1969.

TO THE SHAREHOLDERS:

Your Directors herewith submit a report of operations and the financial statements of the Company for the fiscal year ended December 31, 1968, together with the Auditors' Report to Shareholders.

IRON PROPERTIES, MT. WRIGHT, QUEBEC

As you were informed on October 1st, 1968, we received notice of the termination of the lease on the Quebec Cobalt iron properties held jointly by Boulder Lake Mines Inc., wholly owned subsidiary of Cleveland-Cliffs Iron Company and Normanville Mining Company, wholly owned subsidiary of Jones & Laughlin Steel Corporation. Royalties amounting to $1,008,333.33 have been received.

Originally your company estimated a potential of one billion tons of crude, concentrating iron ore. Subsequently, Jones & Laughlin engineers developed more than half this tonnage through 20,000 feet of diamond drilling, geomagnetic work, and geologic mapping. Their figures were 147 million tons of proven, 56 million tons of possible iron ore concentrates, which at a 2.7 to 1 concentrating ratio is equivalent to 548 million tons of crude. Their stripping ratio was 1.1 tons waste per ton of concentrate, that is 0.4 ton of waste for each ton of crude ore mined. All waste in bands thicker than twenty feet and within pit limits would be stripped and thus bypass the mill.

Jones & Laughlin engineers stated that their Company originally had only contemplated a production rate of three million tons per year of iron ore concentrate. Having readily developed reserves sufficient to maintain this rate of production for half a century, production from any additional reserves would have been so far off in the future as to make further current exploration expenditures economically impractical. Consequently, many promising areas were not drilled or included in the possible ore. Even the main areas were only drilled from along the outcrops to prove these minimum requirements and were not tested for geologically indicated, possible continuations in covered areas. Our total reserve potential is almost an academic question inasmuch as all available evidence points to the possibility of vastly increasing them through further drilling, perhaps even beyond our original estimates.

Of more immediate importance than our total reserve potential is the possibility of increasing the grade of reserves. A study of Jones & Laughlin data by your Geologist has revealed that areas favourable for substantial tonnages of higher grade iron ore were indicated, but not probed in sufficient degree and detail to change the status of our reserves. It is impossible to translate this geological appraisal into precise figures without considerable additional drilling. However, a prediction that such drilling might develop sufficient higher grade tonnages to raise our overall ore grade to that of other production in the area is not inconsistent with the present data.

Visits by your President to large, open pit mining operations in the American southwest have revealed that since Jones & Laughlin's work a decade ago, considerable improvements have been made in the technology of mining and milling large tonnages, such as exploitation of your Company's iron deposits would entail. In spite of higher costs for labor and materials and a presently lower price for iron ore, use of larger trucks, (100-200 ton units, larger shovels, 19 to 25 yard capacities), larger grinding mills, low cost ammonium nitrate explosives, more precise data and controls, by greatly decreasing unit costs, both in mining and milling, further enhance the economic feasibility of our iron deposits. With these lower projected costs enabling us to increase our stripping ratio of waste to ore, we should easily be able to increase our present ore reserves, even exceed our original tonnage estimates of over one billion tons of crude ore. The chief value of Quebec-Labrador iron deposits, in fact for almost all Canadian deposits, which may be by world standards slightly higher cost operations, is their ready availability, stemming from political stability.

As stated in the Release to shareholders of October 1st 1968, we are exploring the possibility of interesting other groups in the development of our property. Should our negotiations result favorably you will be immediately informed.

OTHER PROPERTIES

Quebec

There was no work performed on any of our properties in Quebec in 1968. We hold our interest in Quebec Platinum Mines Limited, as well as retaining a few outside claims.

Ontario

In the Sudbury Mining District of Ontario our Company has taken a substantial stock position in a deep drilling venture with Frood Deep Nickel Mines Limited where drilling is still continuing.

The 28 mining claims in Mann Township, Porcupine Mining Division, were optioned to New Calumet Mines Limited, which Company is carrying out a geomagnetic survey of the claims.

Kapkichi Nickel Mines Limited has optioned its properties to Union Miniere Explorations & Mining Corporation (known as Umex) of Belgium. A small cash payment was received. Some 70 additional claims were staked by Umex surrounding the optioned ground in which Kapkichi receives a proportionate interest if a company to develop the entire property is formed.

Oil Ventures

Our oil and gas interests have been sold to a wholly owned subsidiary.

GENERAL

No property was acquired in our various prospecting activities in Canada and the United States this past year.

We shall continue our exploration work this coming year.

By Order of the Board,

ROBERT D. HOFFMAN,
President.

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Consolidated Balance S

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ASSETS

	1968	1967
Current Assets		
Cash and term bank deposits	$ 126,364	$ 167,440
Accounts receivable	27,253	31,698
Due from associated companies	16,000	10,700
	169,617	209,838
Securities		
Quoted shares and trust units at cost (quoted market value, 1968 — $1,062,062; 1967 — $891,244)	503,134	458,155
Other securities at cost less amounts written off	211,719	211,719
	714,853	669,874
Mining Claims		
Interest in mining claims in the Mount Wright Area, Quebec, held under development licenses, acquired for 1,000,000 shares of the company's capital stock issued at 3¢ per share and $1,001 cash	31,001	31,001
Interest in mining claims in Mann Township, Ontario, at cost (note 2)	950	950
Interest in mining claims in Rouyn Township, Quebec, at cost	250	250
	32,201	32,201
Other Assets and Deferred Charges		
Special refundable tax	3,920	3,920
Organization expenses	2,580	2,580
	6,500	6,500
	$ 923,171	$ 918,413

AUDITO

To the Shareholders of
Quebec Cobalt and Exploration Limited
(No Personal Liability)

We have examined the consolidated balance sheet of Quebec Cobalt and Exp
1968 and the consolidated statements of income, retained earnings and source an
and explanations we have required. Our examination included a general review
evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explan
are properly drawn up so as to exhibit a true and correct view of the state of th
and the source and application of their funds for the year then ended, in accordanc
of the preceding year.

Toronto, Canada
February 25, 1969

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December 31, 1967)

LIABILITIES

	1968	1967
Current Liabilities		
Accounts payable and accrued liabilities	$ 16,537	$ 20,051
Income taxes payable	2,362	
Loan payable to shareholder		30,000
	18,899	50,051
Other Liabilities		
Accrued pension liability (note 3)	77,600	58,200

SHAREHOLDERS' EQUITY

	1968	1967
Capital Stock		
Authorized — 3,500,000 shares of $1 each		
Issued — 3,500,000 shares	3,500,000	3,500,000
Less discount on shares	2,916,496	2,916,496
	583,504	583,504
Retained Earnings	243,168	226,658
	826,672	810,162
	$ 923,171	$ 918,413

Approved by the Board:

R. D. HOFFMAN, Director.

B. A. ORR, Director.

REPORT

on Limited (No Personal Liability) and its subsidiary company as at December 31, lication of funds for the year then ended and have obtained all the information e accounting procedures and such tests of accounting records and other supporting

given to us and as shown by the books of the companies, these financial statements irs of the companies as at December 31, 1968 and the results of their operations h generally accepted accounting principles applied on a basis consistent with that

THORNE, GUNN, HELLIWELL & CHRISTENSON,
Chartered Accountants.

QUEBEC COBALT AND EXPLORATION LIMITED

(No Personal Liability)

and its subsidiary company

Consolidated Statement of Income

Year ended December 31, 1968

(with comparative figures for 1967)

	1968	1967
REVENUE		
Royalties from lease of mining claims (note 5)	$ 108,000	$ 108,000
Dividends and other royalties received	27,948	36,434
Interest earned	7,190	5,110
Loss on oil well operations	(4,435)	(5,465)
	138,703	144,079
EXPENSES		
EXPLORATION		
Geologist's salary and expenses	10,210	9,941
Prospector's salary	12,000	12,000
Travelling and other prospecting expenses	16,616	20,615
Drilling — Mann Township claims		4,757
Geophysical survey — Mann Township claims		4,300
Depreciation of automobile		172
	38,826	51,785
ADMINISTRATIVE AND GENERAL		
Office services	24,550	26,572
Shareholders' reports and meetings	1,406	1,982
Directors' fees	586	570
Directors' expenses	2,194	2,148
Share transfer expenses	3,507	2,165
Legal and audit expense	2,450	2,160
Executive salaries	22,500	22,200
Provision for pension costs	19,400	19,400
Building alterations for storage facilities		25,110
Interest on loan payable to shareholder	(1,350)	1,350
Other administrative and general expenses	541	9,408
	75,784	113,065
	114,610	164,850
	24,093	(20,771)
Profit on securities sold less amounts written off		77,946
Income before income taxes	24,093	57,175
Income taxes (note 6)	5,800	571
Net income for the year	$ 18,293	$ 56,604

QUEBEC COBALT AND EXPLORATION LIMITED

(No Personal Liability)
and its subsidiary company

Consolidated Statement of Retained Earnings

Year ended December 31, 1968
(with comparative figures for 1967)

	1968	1967
Balance at beginning of year	$ 226,658	$ 170,054
Net income for the year	18,293	56,604
	244,951	226,658
Excess of cost of shares in subsidiary company over book value of underlying assets (note 1)	1,783	
Balance at end of year	$ 243,168	$ 226,658

Consolidated Statement of Source and Application of Funds

Year ended December 31, 1968
(with comparative figures for 1967)

	1968	1967
SOURCE OF FUNDS		
Net income for the year	$ 18,293	$ 56,604
Add items not requiring current outlay		
Provision for pension costs	19,400	19,400
Depreciation		172
Amount written off securities		10,729
	37,693	86,905
Sale of securities (less $88,676 profit included in net income)		130,558
Other sources		2,341
	37,693	219,804
Application of funds		
Purchases of securities	44,979	170,053
Excess cost of shares in subsidiary company over book value of underlying assets	1,783	
	46,762	170,053
Increase (decrease) in working capital	(9,069)	49,751
Working capital at beginning of year	159,787	110,036
Working capital at end of year	$ 150,718	$ 159,787

QUEBEC COBALT AND EXPLORATION LIMITED

(No Personal Liability)
and its subsidiary company

Notes to Consolidated Financial Statements

December 31, 1968

1. BASIS OF CONSOLIDATION

The consolidated financial statements for 1968 include the accounts of a wholly owned subsidiary company which holds the U.S. oil interests formerly held by the parent company.

2. MINING CLAIMS

Pursuant to an agreement dated April 22, 1968, New Calumet Mines Limited has been granted an option to acquire up to 52% interest in the company's mining claims in Mann Township, Province of Ontario, by performing thereon up to $25,000 of development work within six years from the date of this agreement.

3. PENSION COSTS

The company has agreed to pay pensions to certain employees upon their retirement. The pension cost related to past services of employees and not provided for at December 31, 1968 is estimated to amount to approximately $26,000. This cost is being charged to income over the estimated terms of service of the employees.

4. COMMITMENT TO ADVANCE FUNDS

The Company has agreed to advance to Frood Deep Nickel Mines Limited, on request, up to $150,000 on or before March 31, 1969. Such advances are to be repayable on March 31, 1970 with interest at the rate of 6% per annum. At any time on or before March 31, 1970 either Quebec Cobalt or Frood Deep may require payment of the loan by the issue of shares of Frood Deep at 60¢ per share.

5. ROYALTIES FROM LEASE OF MINING CLAIMS

The lease on the company's mining claims in the Mount Wright Area of Quebec has been terminated by the lessee. Royalties terminate with the royalty payment for the first quarter of 1969.

6. INCOME TAXES

The provision for income taxes for 1968 includes U.S. withholding tax of $3,438 and Canadian income taxes of $2,362. The 1967 provision is made up of U.S. withholding tax of $2,996 less an adjustment of prior year's Canadian income taxes of $2,425.